

Message Text

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FM SECSTATE WASHDC
TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 185997 TOSEC 080176

EXDIS - FROM DICK MOOSE FOR THE SECRETARY

E.O. 11652: DGS

TAGS:AF, RH, PDEV

SU ECT: ACTION MEMORANDUM TO THE SECRETARY: LINK BETWEEN
THE ZIMBABWE DEVELOPMENT FUND AND THE RHODESIAN SETTLEMENT
PROPOSALS. (S/S 7720585)
REF: (A) STATE 182210; (B) TOSET 080073
ISSUES FOR DECISION:

THERE ARE STILL SOME OUTSTANDING DIFFERENCES BETWEEN
US AND THE BRITISH REGARDING LANGUAGE IN DOCUMENTS, SOON
TO BE MADE PUBLIC, DESCRIBING THE ZIMBABWE DEVELOPMENT
FUND AND ITS ROLE IN THE RHODESIAN SETTLEMENT PACKAGE.
IN ADDITION, THE BRITISH HAVE PROPOSED THAT, THROUGH
NEGOTIATION OF ARTICLES OF AGREEMENT, WE ATTEMPT TO BIND
OTHER DONORS TO US-UK UNDERSTANDINGS REGARDING LINKS BE-
TWEEN THE FUND AND THE SETTLEMENT. WE SEEK YOUR GUIDANCE
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ON THESE ISSUES WHICH ARE PARTICULARLY IMPORTANT TO RE-
SOLVE PRIOR TO MEETINGS WE AND THE BRITISH ARE PLANNING
IN A NUMBER OF EUROPEAN CAPITALS, TOKYO, AND TEHRAN AND
IN WASHINGTON WITH WORLD BANK PRESIDENT MCNAMARA, PERHAPS
AS EARLY AS TUESDAY, AUGUST 9.

ESSENTIAL FACTORS:

THE LINKAGE BETWEEN THE FUND AND THE SETTLEMENT
ARISES IN THREE DIFFERENT CONTEXTS:

(1) THE PURPOSE LOANS AND GRANTS MADE BY THE FUND;
(2) THE TERMS OR CONDITIONS UNDER WHICH LOANS OR GRANTS
WILL BE MADE; AND (3) LANGUAGE DESCRIBING THE RELATIONSHIP
OF THE FUND TO THE SETTLEMENT PACKAGE IN PUBLIC DOCUMENTS.

PURPOSE:

ON OUR INITIAL APPROACH IN DECEMBER 1976, WE AND
THE BRITISH AGREED TO TELL OTHER DONORS THAT THE ZIMBABWE
DEVELOPMENT FUND WOULD MAKE LOANS AND GRANTS FOR DEVELOP-
MENT PROJECTS AND PROGRAMS. THE PURPOSE WOULD BE TO RE-
STRUCTURE THE ECONOMY AFTER INDEPENDENCE AND PROVIDE MORE
ECONOMIC OPPORTUNITIES FOR BLACK ZIMBABWEANS, PARTICU-
LARLY THROUGH TRAINING AND EDUCATION AND AGRICULTURAL RE-
FORM. THIS UNDERSTANDING HAS BEEN REAFFIRMED IN SEVERAL
SUBSEQUENT ROUNDS OF NEGOTIATIONS BETWEEN US AND THE
BRITISH.

HOWEVER, IF AMPLE FOREIGN EXCHANGE IS MADE AVAILABLE
BY THE FUND FOR DEVELOPMENT PURPOSES, OTHER FOREIGN EX-
CHANGE EARNINGS OF ZIMBABWE WOULD BE FREED FOR PAYMENT OF
PENSIONS OR REPATRIATION OF LIQUID ASSETS OUTSIDE THE
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COUNTRY. THUS THE FUND COULD, INDIRECTLY, HELP MAKE
IMPLEMENTATION OF THE TERMS OF THE AGREEMENT POSSIBLE BE-
CAUSE OF THE "FUNGIBILITY" OF FOREIGN EXCHANGE.

TERMS AND CONDITIONS:

WE AND THE UK HAVE AGREED, AS MAJOR DONORS, TO DO
THE FOLLOWING TO PROVIDE INCENTIVES TO THE ZIMBABWE GOV-
ERNMENT TO HONOR THE SETTLEMENT:

(1) WE WOULD PLEDGE FUNDS FOR A FIVE YEAR PERIOD TO
BE PAID IN FIVE EQUAL ANNUAL INSTALLMENTS. IF THE TERMS
OF THE SETTLEMENT WERE NOT BEING HONORED, WE WOULD NOT
FEEL OBLIGED TO CONTINUE MAKING OUR ANNUAL INSTALLMENTS.

(2) WE WOULD ATTEMPT TO NEGOTIATE WITH OTHER DONORS
A CLAUSE IN THE ARTICLES OF AGREEMENT MAKING LOANS AND
GRANTS BY THE FUND CONDITIONAL ON THE MAINTENANCE OF A
CLIMATE CONDUCIVE TO DEVELOPMENT IN ZIMBABWE.

(3) WE AND THE BRITISH WOULD INTERPRET SUCH AN
ARTICLE TO MEAN THAT GROSS VIOLATIONS OF THE TERMS OF
THE SETTLEMENT, PRIMA FACIE, WOULD NOT BE CONDUCIVE TO
DEVELOPMENT IN ZAMBIBWE.

YESTERDAY (AUGUST 5) THE BRITISH REQUESTED THAT WE
GO A STEP FURTHER. THEY HAVE SUGGESTED THAT WE ATTEMPT

TO NEGOTIATE WITH OTHER DONORS A CLAUSE IN THE ARTICLES OF AGREEMENT OF THE FUND, EXPLICITLY MAKING LOANS OR GRANTS CONDITIONAL ON THE TERMS OF THE SETTLEMENT.

THE BRITISH ARGUE THAT IF WE COULD GET AGREEMENT AMONG DONORS TO THIS KIND OF CLAUSE IT WOULD STRENGTHEN OUR HAND IN DISCUSSIONS WITH FOREIGN MINISTER BOTHA OF SOUTH AFRICA AND SUBSEQUENT DISCUSSIONS WITH SOUTH AFRICAN PRESIDENT VORSTER AND RHODESIAN PRESIDENT IAN
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SMITH. EXPLICIT CONDITIONALITY OF THIS SORT MIGHT ENABLE VORSTER AND SMITH TO MORE EASILY SELL THE SETTLEMENT PACKAGE TO THEIR DOMESTIC CONTINGENCIES. FURTHERMORE, EVEN IF REJECTED BY THE DONORS AND BY THE WORLD BANK, WE MAY NOT LOSE MUCH IN HAVING MADE THE EFFORT.

WE ARE CONCERNED THAT OTHER DONORS WOULD REACT BADLY TO EXPLICIT CONDITIONALITY OF THIS SORT AND CAUSE THEM TO DISAVOW ANY SUPPORT FOR THE ZIMBABWE DEVELOPMENT FUND.

AS THE NATIONALISTS BECOME AWARE OF THIS PROVISION IN THE ARTICLES OF THE FUND, THEY MAY REACT VERY NEGATIVELY AND DENOUNCE THE FUND. WE DOUBT VERY MUCH THAT PRESIDENT MCNAMARA OF THE WORLD BANK OR HIS EXECUTIVE DIRECTORS WOULD WANT TO INVOLVE THE BANK IN SUCH POLITICAL CONDITIONS. THEY WOULD SURELY DESIRE THAT THE FUND'S ARTICLES CONTAIN ONLY PROVISIONS RELATED TO THE DEVELOPMENT OF THE COUNTRY.

LANGUAGE:

THE LINK BETWEEN THE FUND AND THE OVERALL SETTLEMENT IS DESCRIBED IN THREE DOCUMENTS THAT WILL BE MADE PUBLIC AT THE TIME WE GO WITH OUR PROPOSALS TO THE UN:

-- A SHORT, SEVEN-POINT SUMMARY OF THE PROPOSALS;

-- PARAGRAPHS 3 AND 13 OF THE MAIN US/UK PAPER DESCRIBING THE PROPOSALS; AND

-- ANNEX C TO THE MAIN PAPER DESCRIBING IN DETAIL THE PROPOSED FUNCTIONS AND OPERATIONS OF THE FUND.
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IN GENERAL THE BRITISH HAVE FAVORED LANGUAGE THAT EMPHASIZES THE "FUNGIBILITY" OF FOREIGN EXCHANGE AND THE CONDITIONALITY OF THE FUND'S LOANS AND GRANTS ON IMPLEMENTATION OF THE TERMS OF THE SETTLEMENT. WE HAVE

STRESSED THE DEVELOPMENTAL PURPOSES OF THE FUND.

IN THE SEVEN-POINT SUMMARY, THE BRITISH HAVE SUGGESTED THAT POINT SEVEN READ: QUOTE A DEVELOPMENT FUND TO REVIVE THE ECONOMY OF THE COUNTRY, PREDICATED UPON THE EXECUTION OF THE SETTLEMENT AS A WHOLE. UNQUOTE WE HAVE SUGGESTED THE FOLLOWING ALTERNATIVE WHICH WE BELIEVE THE BRITISH WILL ACCEPT: QUOTE A DEVELOPMENT FUND TO REVIVE THE ECONOMY OF THE COUNTRY, WHICH IN THE UK AND US VIEW IS PREDICATED UPON THE IMPLEMENTATION OF THE SETTLEMENT AS A WHOLE.

IN THE PAPER DESCRIBING THE PROPOSALS, WE ARE TROUBLED BY DIFFERENCES IN THE LANGUAGE OF PARAGRAPH 3 AND 13. PARAGRAPH 3 IS HISTORICAL AND REFERS TO THE APRIL VERSION OF THE RHODESIAN SETTLEMENT PROPOSALS PUT FORWARD BY OWEN. PARAGRAPH 13 DESCRIBES THE ZIMBABWE DEVELOPMENT FUND IN MORE DETAIL AS PART OF THE CURRENT SET OF PROPOSALS. WE WISH TO AVOID SPECULATION ABOUT THE MEANING OF THE WORDING IN PARAGRAPH 3 RELATIVE TO WORDING IN PARAGRAPH 13, PARTICULARLY UNWARRANTED SPECULATION OF CHANGES IN SHIFT AND EMPHASIS BETWEEN APRIL AND NOW. THEREFORE, WE PROPOSED TO BRITISH MINISTER MORETON TODAY THAT WE ELIMINATE THE DETAIL IN PARAGRAPH

INCLUDING THE DESCRIPTION OF THE FUND AND ITS LINKAGE THE SETTLEMENT.

IN PARAGRAPH 13 WE HAVE NEGOTIATED THE FOLLOWING SENTENCES THAT DESCRIBE THE LINKAGE BETWEEN THE FUND AND THE SETTLEMENT: QUOTE THE OPERATIONS OF THE FUND WOULD BE CONFIDENTIAL

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LP TO ENSURE THAT THE OBLIGATIONS OF THE ZIMBABWE GOVERNMENT UNDER THE SETTLEMENT WILL NOT INHIBIT ECONOMIC DEVELOPMENT IN ZIMBABWE FOR LACK OF FOREIGN EXCHANGE AND THEREBY ALSO HELP TO REASSURE THOSE WHO MAY FEAR THAT THE ZIMBABWE GOVERNMENT MAY BE UNABLE TO CARRY OUT THESE OBLIGATIONS. THE ESTABLISHMENT AND CONTINUED OPERATION OF THE FUND ARE PREDICATED UPON THE ACCEPTANCE AND IMPLEMENTATION OF THE TERMS OF THE SETTLEMENT AS A WHOLE. UNQUOTE

THE FIRST SENTENCE IMPLIES THAT THE FUND CAN GIVE DIRECT SUPPORT TO ASSIST IN THE FOREIGN EXCHANGE COSTS OF REPATRIATION OF PENSIONS AND LIQUID ASSETS. THE SECOND SENTENCE IMPLIES THAT WE ATTACH TERMS AND CONDITIONS TO OUR SUPPORT OF THE FUND.

WE ARE STILL IN THE PROCESS OF NEGOTIATING ANNEX C OF THE MAIN PAPER DESCRIBING THE US/UK PROPOSALS. SINCE ANNEX C WILL NOT BE RELEASED UNTIL LATER IN THE MONTH, THERE IS LESS URGENCY IN RESOLVING ANY DIFFERENCES BE-

EEN US AND THE BRITISH.

WE BELIEVE THAT THE LANGUAGE WE HAVE NEGOTIATED FOR
RAGRAPH 13 OF THE MAIN PAPER REFLECTS THE DETAILED
DERSTANDINGS BETWEEN US AND THE BRITISH ON THE LINK
TWEEN THE ZIMBABWE DEVELOPMENT FUND AND THE SETTLEMENT
CKAGE. WE ARE PROPOSING VIRTUALLY IDENTICAL LANGUAGE
THE SEVEN-POINT SUMMARY AND ELIMINATION OF LANGUAGE
SCRIBING THE LINK IN PARAGRAPH 3 OF THE MAIN PAPER.

AS EXPLAINED IN REFTTEL, BRITISH ORIGINALLY WANTED
MAIN US/UK PAPER TO INCLUDE LANGUAGE SIMILAR TO THAT
IN PRIVATE MINUTE AGREED TO BY YOU AND OWEN. SPECIFICALLY
THEY PROPOSED QUOTE ESTABLISHMENT AND CONTINUED OPERATION
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OF THE FUND IS REGARDED BY THE BRITISH AND US GOVERN-
MENTS AS CONDITIONAL UPON THE ACCEPTANCE AND IMPE-
MENTATION OF TERMS AS A WHOLE. UNQUOTE. OUR COUNTER-
PROPOSAL WAS QUOTE THE ESTABLISHMENT AND CONTINUING
OPERATION OF THE FUND IS PREDICATED ON THE ACCEPTANCE
AND IMPLEMENTATION OF THE SETTLEMENT AS A WHOLE. UNQUOTE.
THE BRITISH CONCUR IN OUR COUNTERPROPOSAL.
THE WORD "PREDCIATED" REFLECTS OUR UNDERSTANDING
TH WE WILL NOT BE BOUND TO MAKE CONTINUED ANNUAL
PAYMENTS TO THE FUND IF THE TERMS OF THE SETTLEMENT
ARE NOT SATISFIED AND THAT A DEVELOPMENT FUND OF THE
SORT BEING PROPOSED MAKES LITTLE SENSE IF THERE IS NOT
A NEGOTIATED SETTLEMENT ALONG THE LINES OF THE US/UK
PROPOSALS. A WORD LIKE CONDITIONAL IS TOO STRONG TO
DESCRIBE THE MORE INDIRECT NATURE OF THE RELATIONSHIP
BETWEEN THE FUND AND THE SUPPORT THAT IT PROVIDES FOR
THE SETTLEMENT PACKAGE.

RECOMMENDATION:

(1) THAT YOU APPROVE THE USE OF LANGUAGE IN PUBLIC
DOCUMENTS DESCRIBING THE FUND AS PREDICATED UPON THE
IMPLEMENTATION OF THE TERMS OF THE SETTLEMENT PACKAGE
AS A WHOLE.

APPROVE: DISAPPROVE:

(2) THAT YOU AUTHORIZE US TO SAY TO THE BRITISH
THAT WE DO NOT BELIEVE THAT OTHER DONORS WILL BE WILLING
TO NEGOTIATE A CLAUSE IN THE ARTICLES OF AGREEMENT TO
THE FUND THAT MAKES THE FUND'S OPERATIONS EXPLICITLY
CONDITIONAL ON THE TERMS OF THE POLITICAL SETTLEMENT,
THAT WE ARE NOT WILLING TO GO NOW TO THE DONORS WITH
SUCH A PROPOSAL, BUT THAT WE ARE WILLING TO ASK
MCNAMARA HIS OPINION ABOUT SUCH A CLAUSE. (WE BELIEVE
MCNAMARA WILL REJECT THE IDEA IF THE WORLD BANK IS

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TO BECOME INVOLVED.)

APPROVE: DISAPPROVE:

DRAFTED: IO: CRFRANK,JR.

APPROVED: AF: WEDMONDSON

CLEARANCES: AF/S:DPETTERSON; S/P:MSPIEGEL(SUBS)

D:MR. LAMB;

CHRISTOPHER

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<< END OF DOCUMENT >>

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